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LATE ITEM**ARAB STATES - ISRAEL**

Egyptian President Sadat appears to have ruled out a step-by-step approach to negotiations with Israel.

In a press conference on his return from Rabat yesterday, Sadat seemed to deny that Egypt had ever considered further disengagement in the Sinai as the next step in negotiations with Israel and said, "Withdrawal must be on all fronts." Sadat insisted, however, that the decisions of the Arab summit had not impaired Egypt's freedom of action.

Sadat will meet with Syrian President Asad, Jordanian King Husayn, and PLO chairman Arafat next week, possibly in Amman. In back-to-back press conferences in Rabat, Arafat and Moroccan King Hassan told newsmen that the four Arab leaders would meet to discuss strategy in accordance with one of the resolutions adopted at the summit conference. The Egyptian minister of information reportedly confirmed that a date has been fixed for such a meeting.

In his remarks, Arafat refused to say whether the PLO would now form a government in exile or agree to attend the Geneva peace conference. Members of the extremist Palestinian commando groups, known collectively as the "Rejection Front," reportedly have issued a statement of their own in Rabat criticizing the "compromise" reached between Arafat and King Husayn and have called for Husayn's overthrow.

Although Husayn was disappointed with the outcome of the summit, he gave every indication in a speech on his arrival back in Jordan yesterday that he would at least go through the motions of upholding the decisions reached at Rabat. He pledged support for the Palestinian cause and said Jordan would continue for the present to provide material aid and services to West Bank inhabitants; Jordan pays the salaries of West Bank civil servants.

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The Israeli government has reacted cautiously to the Rabat summit decisions. Prime Minister Rabin reportedly told his Labor Alignment Knesset faction on Tuesday that the government would make a painstaking examination of the summit's decision. He said, however, that the outcome of the meeting was bad news for Israel, and hinted that it would complicate a Middle East settlement. He reiterated the standard line that the government would not deal with organizations whose declared policy is the destruction of Israel.

Israeli press commentary has been extensive and predictably negative. [REDACTED]

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SOUTH VIETNAM

The immediate aim of yesterday's replacement of three of President Thieu's four regional commanders is to take the sting out of anticipated antigovernment demonstrations during National Day on November 1. The longer range intent is to dampen rising political opposition. Thieu's strong action points to genuine concern that the corruption issue could serve as the catalyst for a further buildup of ferment.

Catholic anti-corruption forces last night staged a torchlight parade in Saigon. Press reports indicate that Saigon police units have attempted to restrain further demonstrations which included a planned march this morning on the presidential palace. Several injuries to demonstrators and police have been reported. Police are said to have sealed off the downtown area and imposed a 24-hour curfew. According to earlier press reports, police yesterday raided the Saigon press club and arrested some 50 persons readying a demonstration against censorship.

Buddhist leaders have informed government authorities that their activities will be limited to speeches in Saigon and seminars in the provinces. Radical fringe elements, such as Madame Ngo Ba Thanh's movement, can be expected to participate in the action. A prominent labor leader has also joined the ranks of Thieu's critics, but there is no indication that union members will demonstrate against the government during the holidays.

Buddhist and Catholic dissidents may find themselves at cross purposes during the holiday, which commemorates the overthrow of the Diem regime in 1963. The Buddhists, who were largely responsible for Diem's downfall, traditionally use the holiday to denounce the former regime. The Catholics, however, revere Diem and usually offer day-long prayers for the former president.

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General Duong Van "Big" Minh, the leader of the Diem coup, will also address the Buddhist meeting in Saigon and reportedly will denounce the current government's "Diemist style" of administration. Such a denunciation is not likely to sit well with the Catholics and could make future cooperation between Catholic and Buddhist dissidents even more unlikely.

The President had warned two of the outgoing commanders several months ago that they would be sacked if they did not put down corruption in their regions. Thieu probably judges that the need to blunt the mounting demonstrations allows him to replace the four commanders without jeopardizing vital support of other senior officers.

The new commanders of regions 2, 3, and 4 have no record of corruption, and two of them have reputations as excellent field commanders. General Phu, who will take over the command of Military Region 2, earned high marks during the Communist Easter offensive in 1972 when he commanded the 1st Infantry Division in Military Region 1. General Nam, the new delta chief, has established his combat credentials as commander of the 7th Division, regarded as the delta's best combat unit.

The new commander of the politically sensitive command around Saigon apparently was selected more for his political reliability than for his combat experience. General Du Quoc Dong has held sensitive positions in the Defense Ministry and as head of South Vietnam's delegation to the Four-Power Joint Military Commission in Saigon established under the cease-fire agreement.

Three new division commanders also were appointed, and other changes are likely. There are rumors that several province chiefs will be replaced soon, but Thieu may wait to get the opinions of his new regional commanders before deciding.

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USSR - WEST GERMANY

Moscow and Bonn appear satisfied with the results of the meetings between General Secretary Brezhnev and Chancellor Schmidt in the Soviet capital this week. West German officials say that in the private conversations, both leaders expressed their determination to continue the relationship established in the Brandt era.

The focus of the talks was on economic matters. As he had with other Western leaders, Brezhnev advocated cooperation on long-term projects, some to run 20 years or longer. Schmidt expressed West German interest in enlarging trade and economic cooperation but coupled this with a firm refusal to offer governmental credits to the USSR. He advised the Soviets to explore commercial credit possibilities.

Among specific projects discussed were the delivery of German pipe for Soviet gas, a three-country contract for the delivery of gas from Iran via the USSR, and the possibility of West German firms building a nuclear power plant in the USSR. Yesterday, the two countries signed a five-year agreement on economic cooperation similar to the one recently concluded between the USSR and France. General political topics were treated in routine fashion.

The question of Berlin came up several times, and the Soviets insisted they would not tolerate any infringement of the Quadripartite Agreement. Toward the end of the visit, however, they agreed to some procedural adjustments that will allow residents of West Berlin to participate in bilateral exchanges between the USSR and West Germany. In general, however, the Soviets sought to avoid specific concessions on Berlin matters.

Moscow had viewed the Schmidt visit essentially as a way of assessing his willingness to continue ostpolitik. The positive, if undramatic, tone of public and private statements after the meetings suggests Moscow was satisfied.

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SOMALIA-USSR

Pravda yesterday published the text of the Soviet-Somali friendship treaty signed last July. Publication occurred just one day after Somalia apparently had completed ratifying the treaty.

Article 4 of the 20-year treaty--the text is not yet available in Washington--provides for Soviet assistance in training Somali military personnel in the use of Soviet-supplied arms and equipment. No reference is made to Soviet military use of Somali facilities, and the accompanying Pravda commentary blasted Western press "conjectures about mythical Soviet military bases on Somali territory."

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Mogadiscio's delay in ratifying may have stemmed from internal disagreements over whether Somalia had received enough in return for concluding the treaty. The Somalis also could have been dragging their feet in order to ensure that Moscow would comply with the promises of military aid and economic concessions it apparently had made to induce signature of the treaty.

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GREECE--TURKEY

The dispute between Athens and Ankara over sovereignty and air traffic control rights in the Aegean has led to virtual paralysis of military and civil trans-Aegean flights during the past three months.

Greek civil and military aircraft still continue to fly to the eastern Aegean in defiance of Ankara's attempt to extend its flight control area, but international civil aviation flights and US military flights are not operating in the disputed zone. Since Greece retains nearly unrestricted access to all desired airfields while Turkish air routes to and from the West are compelled to bypass the Aegean, the situation is beneficial to the Greeks and they may maintain their position on the issue for some time.

Early in August the Turks issued a Notice to Airmen (NOTAM) requiring that all aircraft transiting the eastern half of the Aegean and a substantial part of the northeastern Mediterranean do so under supervision of Turkish air traffic control centers rather than those manned by Athens or Nicosia. Behind this move apparently was Ankara's hope of establishing an air defense information zone. Athens retaliated by issuing a NOTAM declaring the Turkish NOTAM invalid.

Athens views Ankara's efforts to extend its air control authority as being directly linked to Turkish claims to potential mineral deposits in the Aegean seabed. It therefore will not reopen the traditional air corridor between Greece and Turkey until Ankara cancels its August NOTAM, although this corridor skirts rather than passes through the disputed area.

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MALTA

Prime Minister Mintoff announced to a Labor Party audience on October 27 that he intends to make Malta a republic as part of his long-heralded plan to revise the 1964 constitution. He also said that the head of the government should be an elected president, not the British Queen. The Queen is represented in Malta by a governor general.

This move, the subject of public discussion for some months, has met with little opposition and has a better than even chance of winning the referendum and parliamentary approval. In negotiations between Mintoff's Labor Party and the opposition Nationalists over revision of the constitution, the debate has centered mainly on other questions such as church-state relations and the electoral system.

UK-Malta relations have been stable during recent months. Mintoff has even shown concern that the British defense review may result in the withdrawal of the 2,600-man British military contingent.

In the three years since Mintoff has been prime minister, the country has steered an independent, non-aligned course. If Malta achieves republic status, it will have a negligible effect on relations with Britain and its foreign policy in general.

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EC

The EC has largely completed its plans for regulating the nine members' trade with the USSR and East European countries after the community's common commercial policy comes fully into force on January 1, 1975. After that date, new trade agreements will have to be negotiated by the EC Commission on behalf of the community with each of the eastern states.

The EC Commission's model trade agreement to be offered to individual Communist countries after January is now being reviewed by the Committee of Permanent Representatives, and the Council is expected to give final approval at its session on November 11. The model agreement will contain provisions for joint consultations, improvement of facilities for promoting trade, and a general statement about credit terms. It will further provide that the parties accord each other most-favored-nation treatment. A remaining problem with the model trade agreement is the question of including a general clause giving the EC jurisdiction over industrial cooperation agreements. The French seek to restrict the Commission to negotiating only on commercial matters.

The Commission intends to underscore the EC's determination to negotiate agreements with the individual Communist nations rather than within the CEMA framework, which the Soviet Union dominates. Accordingly, before accepting CEMA's invitation for talks in Moscow on EC-CEMA relations, the Commission will send the model agreement to all Communist countries--except possibly China--with which EC members currently have bilateral agreements. A decision on Peking apparently has not yet been reached.

The Soviets, meanwhile, both before and during the October 15-18 sessions of the West German - Soviet joint economic commission made an extremely strong pitch for an extension of their bilateral trade agreement. After Bonn refused, Moscow went so far as to threaten a possible disruption of economic relations with Western

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Europe unless the EC backed down on its policy of granting the Commission responsibility for determining trade policy with the Communist states.

The Commission has long recommended that the cooperation agreements, which have assumed considerable importance in recent years, be included under the common commercial policy, but has so far only won acceptance for their review at the community level.

CHINA

As a result of economic problems at home and disappointment with the spring fair, foreign businessmen have arrived at the fall Canton Fair in fewer numbers and with limited buying power. The Chinese are stressing exports at the fair--prices are generally lower, more Chinese goods are available, and negotiations are proceeding more expeditiously than at the spring fair this year.

The US contingent is about the same size as at the spring fair and again is largely made up of import firms. Several major US firms including Burroughs, 3-M, Coca-Cola, and Kodak are exploring the long-term trade potential with China. Peking has reiterated its interest in doing business with US firms, while reminding businessmen of the importance of most-favored-nation status for US-China trade.

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CHILE

Chile's net agricultural import bill probably will reach \$400 million in 1975, only \$200 million below this year's level, despite some improvement in output.

Production of most food crops is likely to improve markedly next year. Santiago will be unable to make greater cuts in food imports, however, because prospects for the current wheat crop are poor. A recently concluded \$17.1-million US credit for PL-480 wheat purchases will cover about 10 percent of next year's wheat import requirements.

High world wheat prices and Chile's deteriorating balance-of-payments position is forcing Santiago to seek additional credits for wheat imports. The junta recently requested another \$17 million in PL-480 credit from the US. Chile's trade deficit in 1975 will probably increase sharply from this year's estimated \$300 million. Export earnings from copper are likely to drop because of the plummeting world price of copper. At the same time, Santiago will find it difficult to cut imports; in addition to large foodstuff purchases, greater imports of petroleum will be required to offset falling domestic output.

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